

Message Text

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64

ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11 L-03

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TO SECSTATE WASHDC 9695

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY HELSINKI

AMEMBASSY LISBON

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

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C O N F I D E N T I A L COPENHAGEN 2645

E.O. 11652: GDS

TAGS: PINT, EGEN, DA

SUBJECT: COMPROMISE TAX REFORM PROPOSAL BACK BY GOVERNMENT

REF: COPENHAGEN 2614

SUMMARY. THE SIX CENTER-RIGHT PARTIES IN PARLIAMENT
AGREED SEPT 18 UPON A COMPROMISE TAX REFORM PROPOSAL
WHICH HAS RECEIVED PRIMIN HARTLING'S ENDORSEMENT. THAT
COMPROMISE WILL BE OFFICIAL PROPOSAL ON WHICH MODERATE
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LIBERAL GOVERNMENT WILL STAND OR FALL SEPT 20. END

SUMMARY

1. FOLLOWING THE DEFECTION OF GLISTRUP'S PROGRESS PARTY FROM THE INTER-PARTY NEGOTIATIONS SEPT 16 (SEE REFTEL), THE REMAINING NON-SOCIALIST PARTIES CAME TO AGREEMENT ON A NEW COMPROMISE TAX REFORM PROPOSAL. THE NEW PROPOSAL IS BUILT UPON A RADICAL PARTY PLAN REDUCING INCOME TAXES BY A MORE MODEST SEVEN BILLION KRONER (INSTEAD OF TEN IN GOVERNMENT'S ORIGINAL PROPOSAL) AND IS FINANCED ENTIRELY BY REDUCTIONS IN GOVERNMENT EXPENDITURES RATHER THAN BY AN INCREASE IN THE VAT.

2. PRIMIN POUL HAARTLING HAS GIVEN THE NEW PROPOSAL HIS COMPLETE ENDORSEMENT, DESPITE ITS LACK OF RESEMBLANCE TO THIS ORIGINAL LIBERAL PROPOSAL, AND HAS ANNOUNCED THAT HIS GOVERNMENT WILL CALL ELECTIONS IF THE NEW COMPROMISE IS NOT ADOPTED ON THIRD READING SEPT 20. THE NEW COMPROMISE IS ASSURED OF 84 VOTES (LIBERAL-22, RADICAL-20, CONSERVATIVE-16, CENTER DEMOCRATS-14, CHRISTIAN-7, JUSTICE-5). PRESSURE IS CONSEQUENTLY ON THE SOCIAL DEMOCRATIC PARTY (46) AND GLISTRUP'S PROGRESS PARTY (27) SINCE AN ABSTENSION BY EITHER PARTY WOULD SAVE THE GOVERNMENT. BOTH PARTIES HAVE ANNOUNCED THAT THEY WILL NOT DECIDE THEIR STAND BEFORE THE MORNING OF SEPT 20.

3. THE SOCIAL DEMOCRATS ARE LIKELY TO VOTE AGAINST THE COMPROMISE BILL ALTHOUGH THERE IS CONSIDERABLE PRESSURE FROM THE RIGHT WING OF THE PARTY TO ABSTAIN. ON THE OTHER HAND IT WILL BE MORE DIFFICULT FOR THE PROGRESS PARTY, AS A TAX-PROTEST PARTY, TO VOTE AGAINST A REDUCTION OF INCOME TAXES. THE GOVERNMENT AND CENTER-RIGHT PARTIES ARE HOPING EITHER FOR AN ABSTENTION BY THE PROGRESSIVES EN BLOC OR A DECLARATION BY GLISTRUP THAT HIS PARTY IS FREE TO VOTE INDIVIDUAL PREFERENCES. IF ONLY SIX GLISTRUPITES VOTE IN FAVOR OF THE GOVERNMENT-BACKED COMPROMISE, HARTLING COULD REMAIN IN OFFICE. HARTLING, HOWEVER, IN BACKING THIS PROPOSAL HAS SUBSTANTIALLY COMPROMISED THE SUBSTANCE

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OF HIS ORIGINAL TAX REFORM PROGRAM AND THE NEW COMPROMISE MAKES MORE SENSE AS AN ELECTION PLATFORM THAN IT DOES AS A SERIOUS BIT OF ECONOMIC POLICY.

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